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TO RUEHC/SECSTATE WASHDC 9909
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RUEHCI/AMCONSUL KOLKATA 1512
RUEHLH/AMCONSUL LAHORE 4254
RUEHBI/AMCONSUL MUMBAI 1307
RUEHPW/AMCONSUL PESHAWAR 4726
RUEHIL/AMEMBASSY ISLAMABAD 4378
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
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UNCLAS SECTION 01 OF 02 NEW DELHI 000027

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USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
JANUARY 4, 2008

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11. (U) Below is a compilation of Economic highlights from Embassy
New Delhi for the week of January 4, 2008.

CENTER APPEARS TO WAFFLE
ON GOA SEZ BAN

12. (U) In the face of protests that threatened tourism-dependent
Goa, Congress-ruled Goa Chief Minister Digambar Kamat announced on
December 31 that the government intended to scrap all 15 SEZ
proposals it had recommended to the Center for approval. Since
three projects had already received central government
"notification" (final approval) and started investments worth over
\$100 million, Kamat stated that Goa would request that the Commerce
Ministry, the lead ministry on SEZs, de-notify those three.
Commerce Secretary and SEZ Board of Approval (BoA) Chairman G.K.
Pillai quickly and strongly responded on January 2 that notified
SEZs could not be de-notified. Pillai stated, "There is no
provision in law to de-notify a notified SEZ." However, Kamat met
with Commerce Minister Nath the following day, whose public
statements walked back from Pillai's. Nath stated that the central
government can de-notify SEZs and that it would not wish to force a
SEZ on a state that did not want them. Nath said he would wait for
the official request from the Goan government and take "appropriate
action."

13. (U) Meanwhile, the central government is moving ahead with
efforts to promote SEZ development elsewhere. On January 2, the BoA
considered 44 proposals for setting up SEZs, of which 24 were
granted formal approvals. During a recent meeting on SEZs organized
by CII, Commerce Joint Secretary Anil Mukim hailed the success of
SEZs. He asserted that Indian SEZs have generated direct employment
of about 52,000 and indirect employment of 100,000. Mukim claimed
the growth was likely to be exponential and that employment could
shoot up to 150,000 by March 2008 and to 600,000 by the end of 2009.
He also expected the foreign direct investment in SEZs to increase

3-4 fold within the next year.

14. (SBU) Comment. The Commerce Ministry's big plans for foreign participation in SEZs could take a hit if the GOI capitulates to the Goa government and approves de-notification after investors have already sunk significant money, not to mention time, into their projects. Post will monitor developments and report as warranted. End comment.

CHIDAMBARAM RAISES HOPES OF TAX RATE REDUCTIONS IN UPCOMING BUDGET

15. (U) Finance Minister Chidambaram, in a New Year's Day Press Conference, pointed to new April to December tax collection data that showed corporate tax revenues up 40 percent and personal income tax revenues higher by 50 percent. With those revenues surging, direct taxes surpassed indirect taxes, such as customs and sales taxes, for the first time in India - a sign of increasing tax compliance. Given that, Chidambaram reiterated his observation from last year's budget that higher tax compliance offered a "case for moderation" in tax rates. However, he refused to state categorically whether he felt there was now sufficient compliance to warrant the tax rate reductions.

UTTAR PRADESH FINALLY JOINS VAT

16. (U) Uttar Pradesh's (UP) Governor T V Rajeswar issued an ordinance on December 31, announcing that the state would finally implement the value-added tax (VAT), effective January 1. UP's Chief Minister Mayawati had stated back in October that the state - the last hold out to adopt the VAT - would finally implement it. Small traders, not surprisingly, protested its implementation, as they had previously done. It is still to be seen whether Mayawati and her government will stand firm against protests and maintain the VAT tax. Her government has not yet shown itself to be resolute

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when new policies become controversial. The UP government reversed a new agricultural policy in August 2007 and is still to re-open Reliance Retail stores it closed last summer in response to protests.

NEW ESTIMATES FOR AIR TRAFFIC GROWTH

17. (U) According to new estimates by the Airports Authority of India (AAI), the country is likely to see a 21.6 percent annual growth in passenger traffic over the next five years. Earlier estimates predicted handling of 120 million passengers by the end of 2011-12 at India's already congested airports. This is now expected to rise to 256.5 million air travelers by the end of March 2012, according to new GOI statistics. In addition, Mumbai, the nation's busiest airport in India, will soon be overtaken by Delhi. Once IGI Delhi Airport gets a new runway and terminal, expected to be complete this summer, more flights will be routed to Delhi. The two groups that are modernizing the Delhi and Mumbai Airports, GMR and GVK, expect the aviation map will be redrawn by 2010.

18. (U) AAI data also showed that domestic air travel is expected to see a higher growth of around 24 percent. The other trend that emerged was a slower growth in aircraft movement - which is the number of landings and take-offs - than in passenger volumes handled. Aircraft movement is projected to rise nearly 17 percent between now and 2011-12, which pointed towards airlines seeing higher capacity utilization, estimated at less than 70 percent. Alternatively, it could mean that airlines fly bigger aircraft to accommodate more passengers, while their load factors remained around the same level. However, aircraft manufacturers see maximum demand in single aisle aircraft, like the ones which are popular now. Industry experts believe this trend could point to better financial health for airlines in the years to come.

19. (U) With India's airports already congested and still waiting to be upgraded, the latest data could see airport developers rework some of their calculations. DeveloperQay now be forced to add

more parking bays and larger terminals. The GOI continues to maintain that all modernization work will take into account the new growth figures.

¶10. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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